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FM AMEMBASSY PRISTINA  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 8331  
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY  
RUEHNO/USMISSION USNATO PRIORITY 1040  
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK PRIORITY  
RUCNDT/USMISSION USUN NEW YORK PRIORITY 1500  
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RHEHNSC/NSC WASHDC PRIORITY  
RUEAWJA/DEPT OF JUSTICE WASHDC PRIORITY  
RUZEJAA/USNIC PRISTINA SR PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 PRISTINA 000354

SIPDIS

DEPT FOR INL, EUR/SCE, S/CRS, EUR/ACE,  
NSC FOR HELGERSON, USAID/E&E FOR MENARCHIK

E.O. 12958: DECL: 02/28/2018

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SUBJECT: KOSOVO: JULY 11 DONORS CONFERENCE A MILESTONE  
EVENT FOR KOSOVO

Classified By: Charge d'Affaires Tina S. Kaidanow for Reasons 1.4 (b),  
(d).

11. (C) SUMMARY: The European Commission (EC) will host a donors conference in Brussels on July 11 to mobilize funding for Kosovo's continued development in the wake of independence. The Government of Kosovo (GOK) will need 1.5 billion dollars over three years in donor support to address existing needs and costs associated with the creation of a new state. Over three years, the EC will contribute USD 614 million and the USG, USD 400 million, while major bilateral donors such as Germany, Switzerland, Norway, Finland and Sweden have initially pledged roughly 20 million each. Early pledges indicate that donors have confidence in Kosovo and are willing to back up political commitments with substantial funding. At the conference, the GOK will share its Medium Term Expenditure Framework (MTEF), a document that details spending priorities and identifies associated costs over three years and which has met with the approval of both the EC and U.S. Rule of law, infrastructure and social stability are the big ticket items, comprising 60 percent of its public expenditures; budget support and debt relief are also areas the GOK wants to address. The donors conference is key not only to support the economic well-being of Europe's youngest state, but to showcase the GOK commitment to a democratic, multiethnic future, in line with its obligations under the Ahtisaari Plan. Both elements are important to garner greater recognition of Kosovo independence. END SUMMARY.

12. (U) With the July 11 donor's conference, Kosovo will take another important step in further establishing itself as a state. PM Hashim Thaci and a cadre of ministers will attend the conference in Brussels, hosted by the European Commission. The meeting will bring together key EU and international donors and international financial institutions, as well as international and UN agencies. More than a fund-raiser, the event will elevate Kosovo's profile and provide a welcome venue for its government to highlight its successes since independence and explain future plans. In preparation for the conference, the government has produced a report on its first 120 days, which details its key accomplishments since independence, including adoption of the Kosovo constitution, passage of 41 laws necessary to implement the Ahtisaari plan, creation of new institutions, and recognition by 43 countries, including most of the EU and NATO member states. It has also produced a comprehensive

Medium Term Expenditure Framework (MTEF) that broadly defines the GOK's plans for spending and growth and identifies a USD 1.5 billion funding gap over the course of the three years. These documents tell Kosovo's story since independence and provide donors with a guide to its future.

#### Pledging

13. (U) USG Coordinator for Assistance and USAID Administrator Henrietta Fore will lead the U.S. delegation to the conference, in which all EU members states that have recognized Kosovo's independence (and some that have not) will participate. In addition, major non-EU donors, including Japan, Canada, Norway, and Switzerland, are scheduled to attend and pledge support. The bulk of assistance is likely to come from the EC and the U.S., with the former pledging USD 614 million and the latter, USD 400 million dollars, over three years. In addition to the general EC pledge, Germany, Sweden, Switzerland, Norway and Finland are expected to make significant bilateral pledges of roughly 20 million euro each.

14. (U) The GOK will require significant resources to pay its inherited Yugoslav debt, should it reach agreement with Serbia on formal assumption of payments. Also contributing to the financing gap is the GOK decision to create a stabilization reserve of 200 million euro for debt servicing and/or other unanticipated costs (i.e., disaster response and relief). A majority of donors will pledge bilateral assistance to help the government meet its objectives, while

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others may opt to provide budget support. The World Bank has established two trust funds, one for budget support and one for debt relief, to assist in this effort. The USG will set aside one-third of its assistance for debt relief.

#### Economic Landscape

15. (SBU) The GOK is eager to tell its story and ready to forge partnerships with the broad spectrum of international donors who will be present in Brussels this week. Kosovo is one if not the poorest country in Europe: per capita gross domestic product (GDP) is less than 1800 euro/year, economic growth is around three percent, and unemployment is officially estimated to be 40 percent (although some estimates are much higher). Kosovo's schools are overburdened by a growing population -- the youngest in Europe -- and its infrastructure is in urgent need of repair.

In response to these challenges, the GOK has engaged actively and collaboratively with the donor community over the past year to develop the MTEF, a document which has won the support of both the U.S. and the European Commission. A key challenge for the GOK post-conference will be providing adequate controls for the assistance offered, and ensuring that spending is both transparent and timely. Minister for Economy and Finance Ahmet Shala, one of the most effective GOK ministers, has already engaged with us on mechanisms for tracking the flow of assistance and is committed to enhancing donor coordination to prevent unnecessary duplication of effort.

16. (C) COMMENT: The donors conference is important not only to provide critical funding to help establish the fledgling state of Kosovo, but to showcase the seriousness and resolve by which the GOK is undertaking its obligations under the Ahtisaari Plan, particularly with regard to Kosovo Serbs. Both elements are key to Kosovo's democratic, multiethnic future, and a successful conference that accomplishes both can only have a positive impact on garnering greater recognition of Kosovo independence. We will continue to work with the GOK on follow-up post-conference to help it adequately track and utilize the assistance provided via the conference. End comment.

